

Closed-Door Discussion on

“Do Singaporeans spend too much on real estate?”

Friday, 10 May 2013

2.30pm – 4.30pm

Oei Tiong Ham Building

“Do Singaporeans spend too much on housing?”

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Closed door discussion
10 May 2013
Institute of Policy Studies
Lee Kuan Yew School of Public Policy
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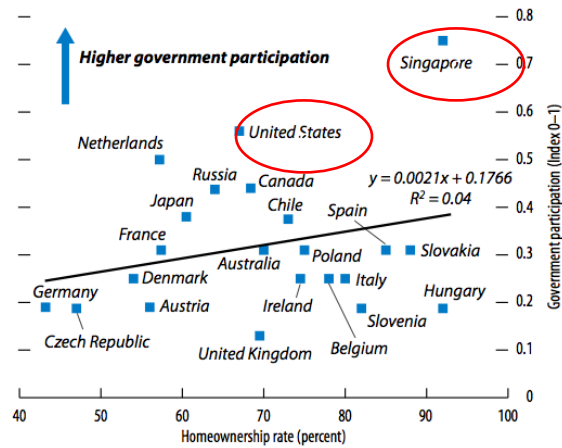
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Outline

- A. HDB-CPF framework – time for review?
- B. Housing consumption and investment over-spending?
- C. 3 sets of housing issues
 - i) Rental housing
 - ii) Homeownership affordability
 - iii) Investment and speculative demand

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Figure 3.4. Homeownership Rate and Government Participation in Housing Finance



Sources: European Mortgage Federation; Australian Bureau of Statistics; Japan, Ministry of Internal Affairs and Communications, Statistics Bureau; Singapore, Department of Statistics; U.S. Census Bureau; and IMF staff estimates.

Source: IMF (2011). Global Financial Stability Report, page 128.

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Housing and Development Board 1960

- Town Planning
- Builds and sells housing
- Offers mortgage loans
 - 30 years
 - 90% LTV
 - interest rate 2.6%



Central Provident Fund

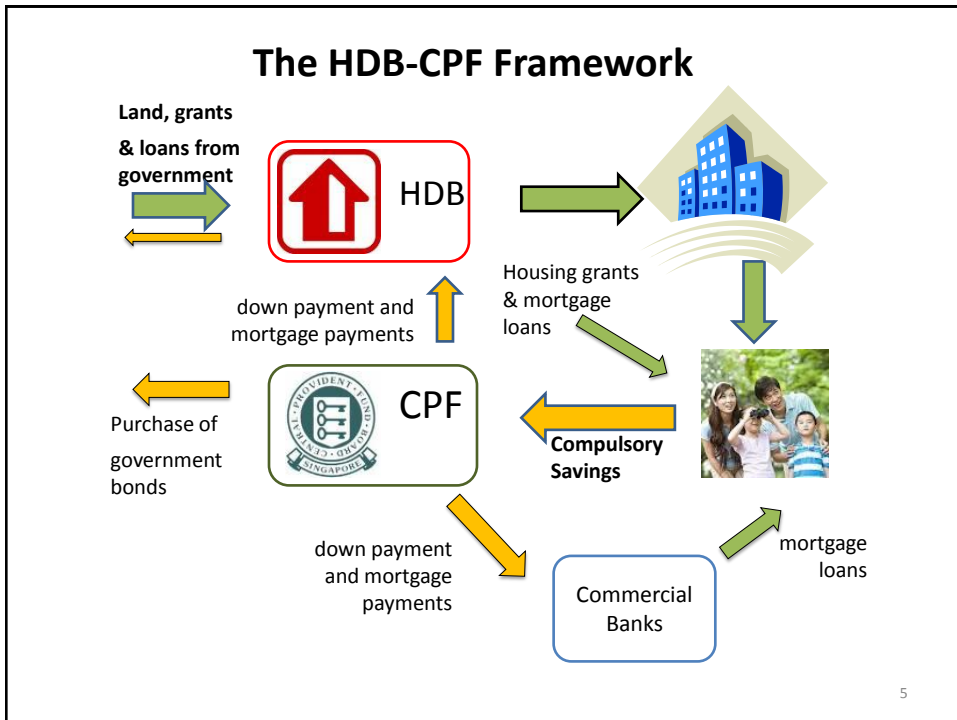
- **1968:** Members can withdraw compulsory savings for housing finance

Land Acquisition Act 1966

- Government can acquire land for any public, residential, commercial or industrial purpose

Mobilization of Resources for Housing 1960s

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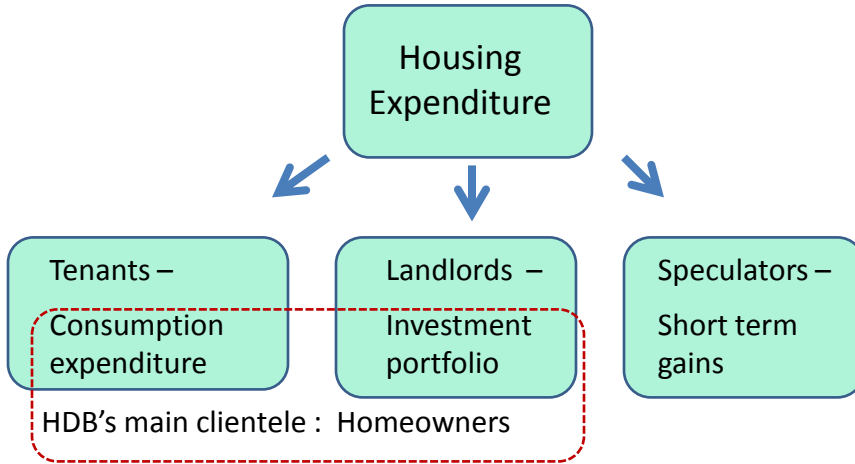


Time for review?

1970	2013
<ul style="list-style-type: none"> • 29% homeownership rate • Chronic housing shortage • High risk in lending for housing • Housing policies for welfare, social and political stability 	<ul style="list-style-type: none"> • 89% homeownership rate • "Spending too much on housing?" • Lenders competing for housing mortgage business • Housing policies for homeownership affordability, asset appreciation and retirement financing

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B. Consumption, Investment, & Speculative Demand



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No over-consumption of housing space

2010 Median household size 2.942; median household space per person **34 sq m**
 2000 3.2 31 sq m

2010 **Resident** Households by Dwelling Type and Household size

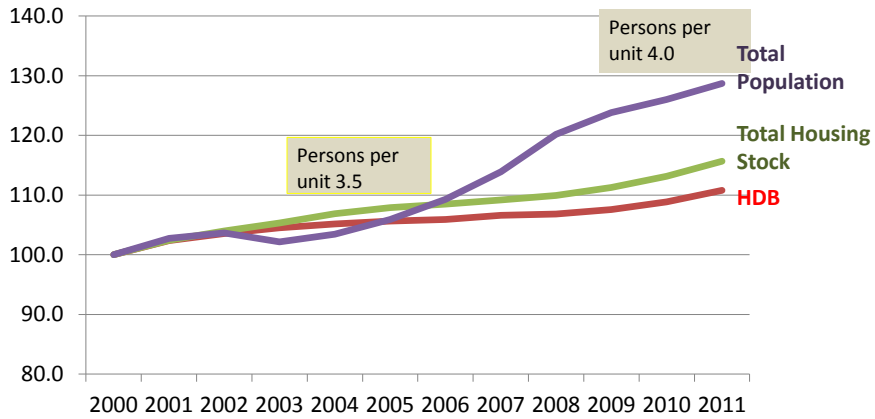
	Size Sq m	Total	1 person	2	3	4	5	≥ 6
Total		1,145,920	139,876	215,005	231,351	263,944	167,993	127,751
HDB Flats		943,859	114,380	182,680	196,816	220,309	132,998	96,677
1- & 2-Rm	30 45	52,275	20,711	17,489	7,135	3,785	1,902	1,253
3-Rm	75	229,718	49,713	60,077	52,836	39,874	17,693	9,526
4-Rm	100	365,423	27,894	62,665	79,954	96,836	57,299	40,775
5-Rm & Exec	123	293,336	15,018	41,878	56,303	79,406	55,808	44,923

Over-consumption?
 Investment demand?
 Subletting? Empty nest?
 9% of HDB hh

Over-crowding?
 4% of HDB hh

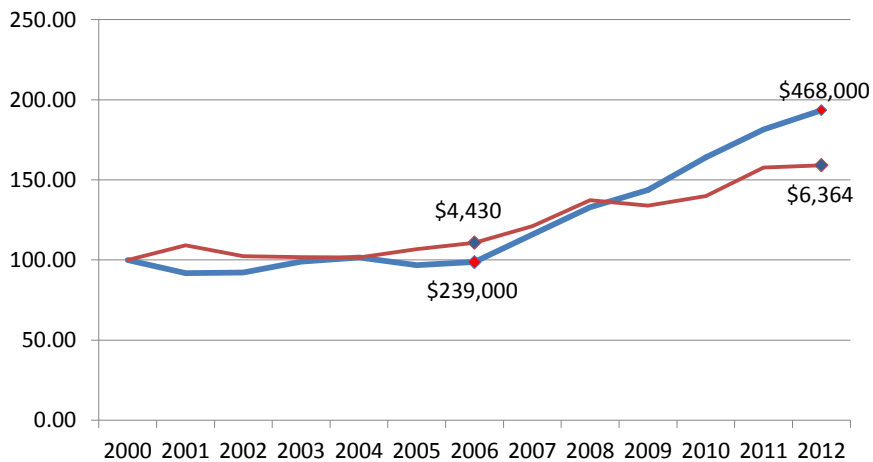
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Under-supply problem – increase in persons per unit?

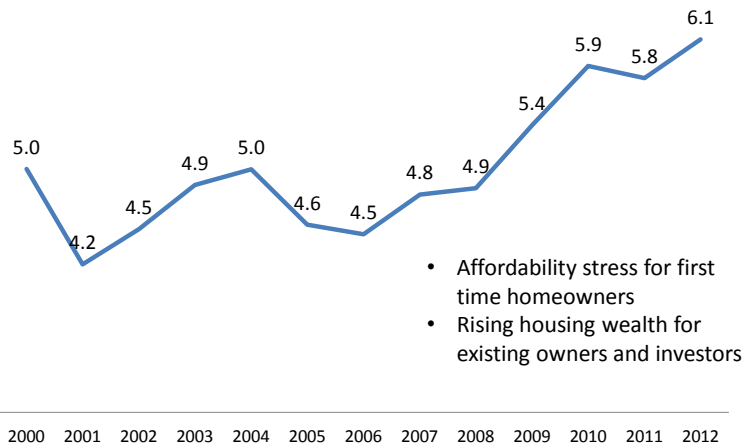


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Median resident household incomes & median HDB 4-room flat resale prices



Median 4-rm HDB resale price to median resident household income ratio



Investment demand for housing

- Attractive risk adjusted returns for HDB resale and private housing > STI returns
- Minimal risk for HDB BTO new flats
- Enhanced by rental income and imputed rents on owner-occupancy
- Insurance value of HDB flats
- Low interest environment & easy access to mortgage loans
- Hedge against inflation
- Magnified by leverage
- Appreciation of S\$

Risk-Adjusted Return Ratio (nominal)

		Average Nominal Return*	Standard Deviation	Risk-Adjusted Return Ratio
1990-1999	Private housing	12.1	23.2	0.52
	HDB resale	15.2	25.9	0.59
	STI	12.2	35.3	0.35
2000-2012	Private housing	4.1	10.8	0.38
	HDB resale	5.1	8.1	0.63
	STI	6.0	29.5	0.20

* Based on price index only

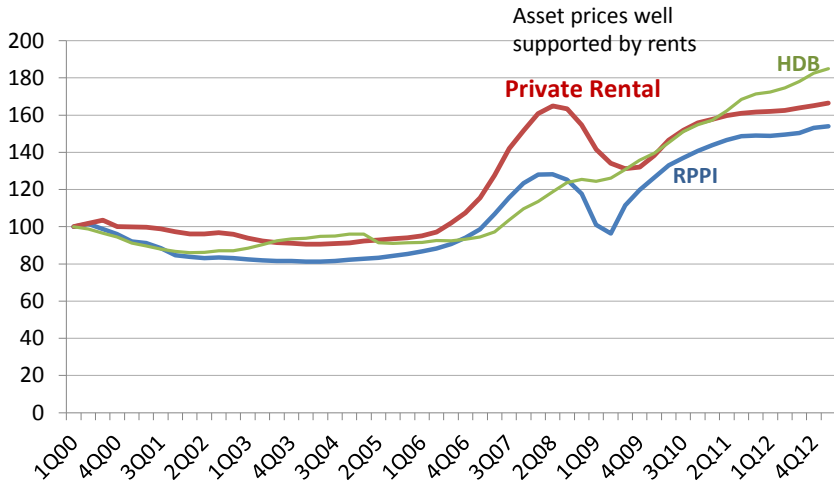
+ Gross rental income yields for HDB in the range of **6% to 8%**

Risk-Adjusted Return Ratio (real)

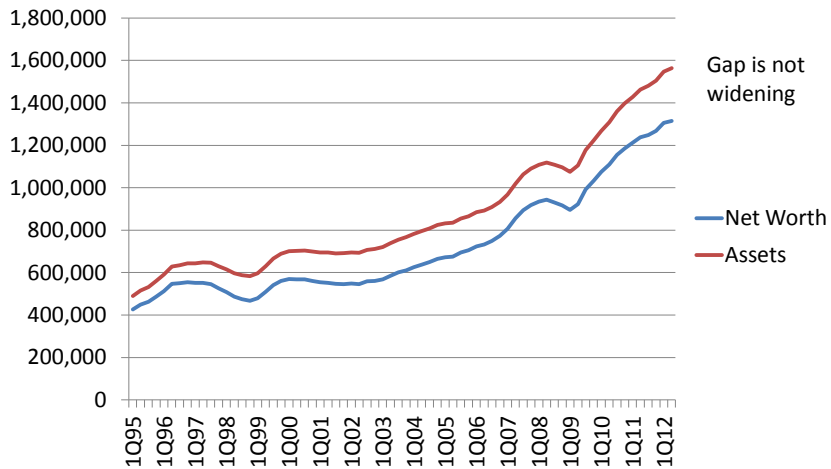
		Average Real Return*	Standard Deviation	Risk-Adjusted Return Ratio
1990-1999	Private housing	10.1	22.7	0.45
	HDB resale	13.3	25.7	0.52
	STI	10.3	35.7	0.29
2000-2012	Private housing	1.9	10.9	0.18
	HDB resale	3.0	7.1	0.42
	STI	3.9	30.5	0.13

* Based on price index only

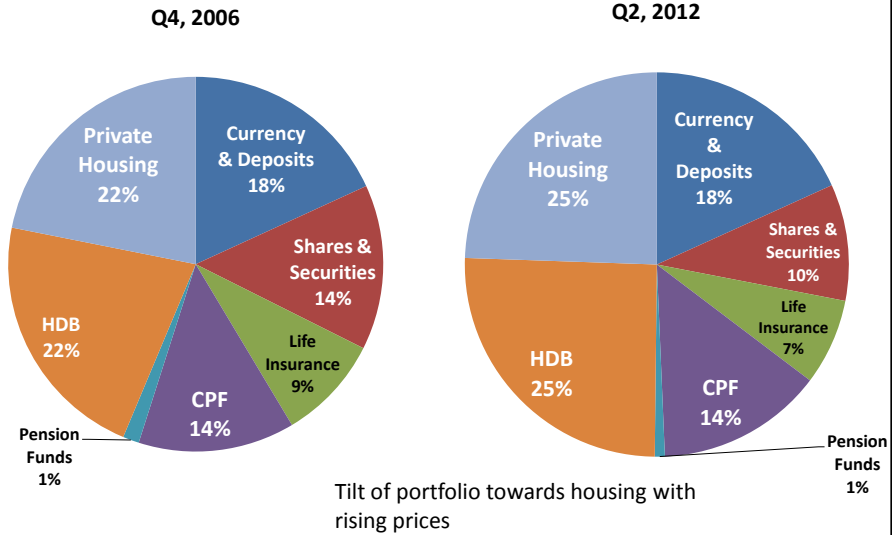
Nominal Price and Rental Indices



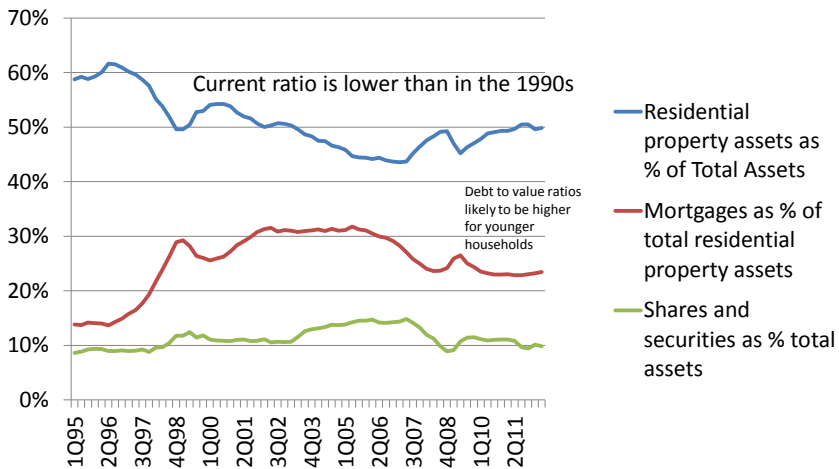
Household sector balance sheet (\$ million)



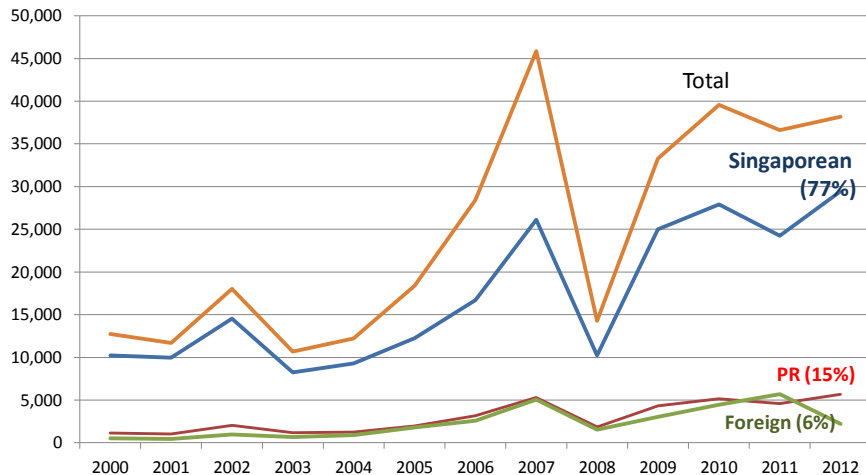
Household sector assets



Household sector balance sheet



Private Residential Property Transactions



Consequences

- No significant wealth effect of housing price increase on consumption (Phang, Lum et.al., Abeyasinghe)
- No affordable rental sector
- First-time homeowners face affordability issues in resale market and access issues in BTO market
- Low Total Fertility Rate (Abeyasinghe)
- Low Total Factor Productivity (Krugman)
- High rents impact tenant households, SMEs and prices
- Weak retail and domestic corporate sector (Bhaskaran)
- Culture of entitlement to affordable homeownership, asset appreciation, capital gains and multiple property ownership
- **Intergenerational inequities not sustainable**
- “Much easier to be a landlord” attitude - effects on human capital investment, innovation and entrepreneurship
- Over-focus on homeownership subsidies at the expense of social risk pooling to address needs of lifetime poor, longevity and inflation risks (Asher)

Henry George (1873) on land speculation

“In every progressive community, population gradually increases, and movements succeed one another, bringing about an increase in the value of land. That steady increase leads to speculative activity in which future increases are anticipated. In this manner, land values are carried beyond the point at which, under existing conditions, the accustomed return is expected by wages and capital, an increasing portion of income going to rent. Production begins to decline at this point and this cessation is communicated to an ever-widening scale of industrial activity.”

http://www.cooperativeindividualism.org/foulke-roy_henry-george-brought-public-attention-to-land-speculation-1933.html

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From wipeouts to windfalls?

Lim Kim San (1964)

‘With a view to securing to the state the increase in value of land brought about by community development and not through the efforts of the land owner, the government has considered various measures including the acquisition of development rights in land, the acquisition of the freehold in land, and the freezing of land prices.’

Homeownership policy

Housing asset appreciation / housing asset value preservation

Plot ratio enhancement - enbloc sales

C. Three sets of housing issues

- I. Affordable rental
- II. Homeownership affordability
- III. Reducing investment and speculative demand for housing

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I. Affordable rental

- Marginalized sector
- Policy of restricting supply
- **Establish overcrowding standards for low income households**
- **Expand affordable rental sector**
 - Existing high market rental yields indicative of shortage of affordable rental
 - Consider housing REITs as form of institutional ownership
 - Greater integration of HDB rental units with homeownership units

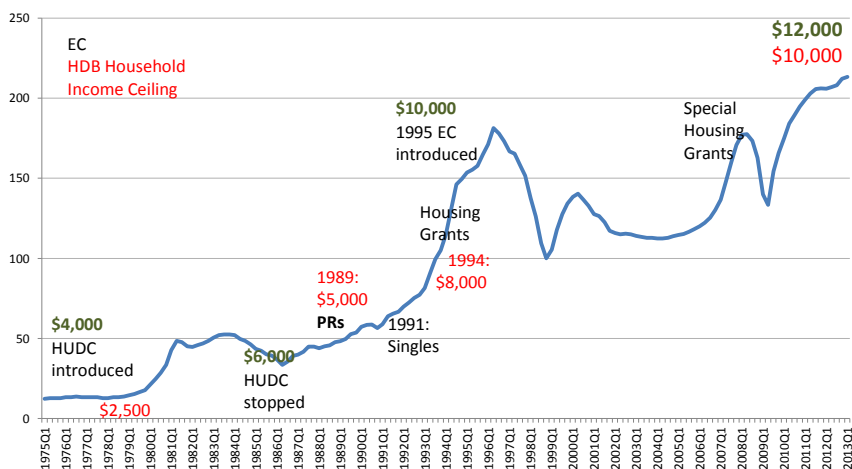
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II. Homeownership affordability

- Income Ceiling : \$12,000 ?
- Pricing of BTO flats: PIR of 4 ?
- Executive Condominium Scheme ?
- Excluding segment of future BTOs from resale market ?

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Housing affordability and expansion of subsidy schemes



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Inflation-indexed income ceilings

	HDB	EC
Jan-00	\$8,000	\$10,000
Jan-08	\$8,864	\$11,080
Mar-13	\$10,657	\$13,322

The recent adjustment upward to \$10,000 for HDB and \$12,000 for EC have not kept up with inflation. Suggest to raise HDB income ceiling to \$12,000, phase out EC scheme, expand supply of land for condominium housing to fill EC gap

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High degree of historical path dependency in housing policy

Contrast between housing and other welfare sectors:

- Changes to institutions require “formative moment”
- Existence of long term mortgage contracts
- Supply takes a long time to have full impact
- Investment decisions made based on expectations
- Any change in rules on housing tenures and rights of exchange and possession regarded as a threat to existing owners
- Expect considerable political restraint on changing rules overnight

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Historical path dependency

- Income Ceiling (only up and not down)
- Supply and pricing of BTO flats (implications for existing homeowners)
- Executive Condominium Scheme (easier to phase out if absorbed into HDB)
- Asset appreciation & retirement financing
- Upgrading subsidies
- **Shared ownership housing schemes**
- **Changing mindsets and expectations**

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III. Reducing investment and speculative demand for housing

- Increasing transaction costs (stamp duties)
- Credit restrictions - LTV and DSR caps
- Minimum occupancy periods
- Restrictions on ownership of 2nd property
- Restrictions on right to rent out property
- Increasing property tax rates

Should more be done?

- **Housing REITs for investors**
- **Further tightening of regulations on PRs and foreigners e.g. restrictions on number of properties owned**

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Singapore's housing market segmentation

1. HDB direct sales & ECs

Subsidized new public housing & ECs → Eligible citizens

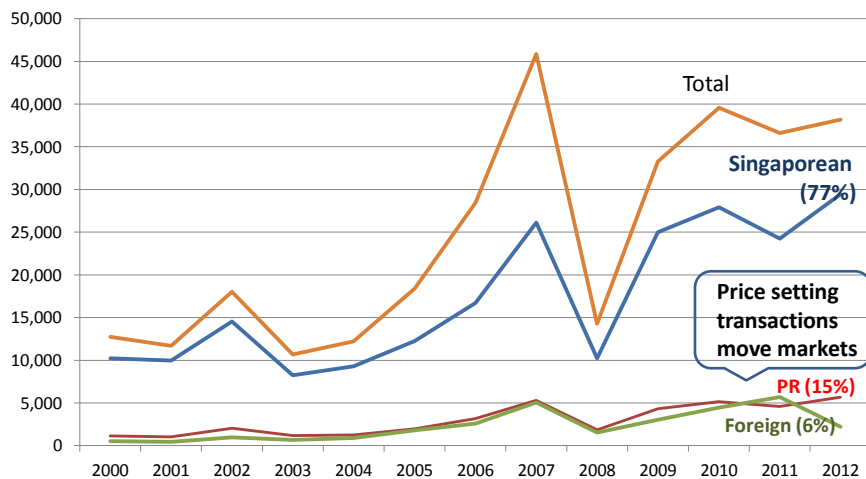
2. HDB secondary market

Market price resale public housing → Citizens (housing grant subsidies) & PRs

3. Private housing market

Apartments & condominiums → Citizens, PRs, Foreigners
Landed Houses → Citizens only

Private Residential Property Transactions – prices set at the margin



Australia's policy toward foreign buyers

All applications from foreign citizens or companies to buy residential real estate are put before the [Foreign Investment Review Board \(FIRB\)](#).

Permission to purchase will be **refused** if the FIRB feels the purchase is just for the purpose of renting out, or speculation on future value.

Permission is usually **granted for owner-occupancy** for students over 18 (a general limit of \$300,000), long stay retirees and work reasons. ..

Usually, the purchase of two houses per company for stay by employees are permitted.

Property must be sold when these categories of buyers no longer live in Australia.

The purchase of another residence, such as a "weekender" for recreational use, is not approved under any of the above circumstances.

Apartments or townhouses in a proposed development, or in a development which has just been completed but has not yet been occupied or sold, can be sold to foreign investors as long as the developer applies in advance for this to be allowed. ..the property, when built, can be rented out, sold or used by the purchaser. However, foreign interests cannot hold more than half the apartments or townhouses in any one development.

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Proposals for further market segmentation

1. HDB direct sales & ECs

Subsidized new public housing & ECs → Eligible citizens

- Phase out ECs?
- Create new segment(s)?

2. HDB secondary market

Market price resale public housing → Citizens (housing grant subsidies) & **PRs**

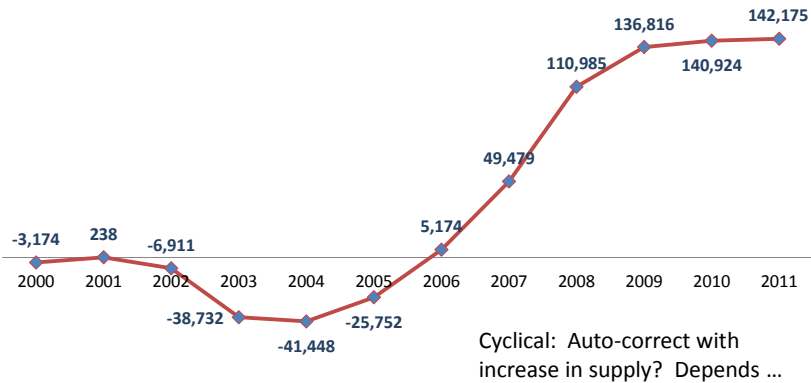
- PRs: owner occupancy only

3. Private housing market

Apartments & condominiums → Citizens, **PRs**, **Foreigners**
Landed Houses → Citizens only

- PRs & foreigners: owner occupancy only?
- Employment pass foreigners only?

Housing shortage =
Gross Population/3.6 – Total Housing Stock



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Sources for data:

Data websites of:

- Singapore, Department of Statistics
 - Singapore Census of Population 2010
 - Monetary Authority of Singapore
 - Housing and Development Board
- Urban Redevelopment Authority REALIS

The assistance of Christopher Gee is gratefully acknowledged.

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